



Virginia Employment Commission *report to*

The Commission on Unemployment Compensation

Dolores Esser, *Commissioner*
Virginia Employment Commission

September 27, 2007

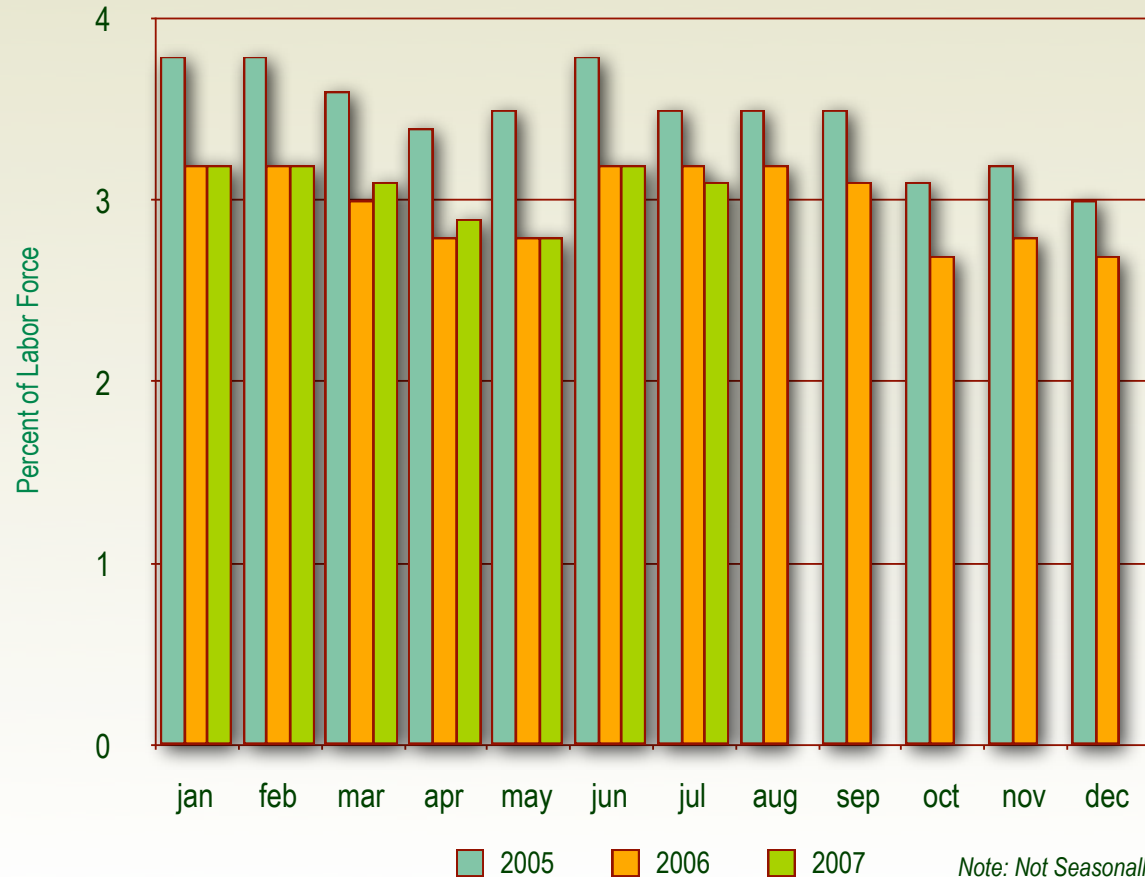


VEC Trust Fund



Virginia's Unemployment Rates 2005 - 2007 *(year to date)*

- This year, except for July, unemployment rates are at or above the year-ago rates.
- However, the rate has not been above 4% since January 2004.

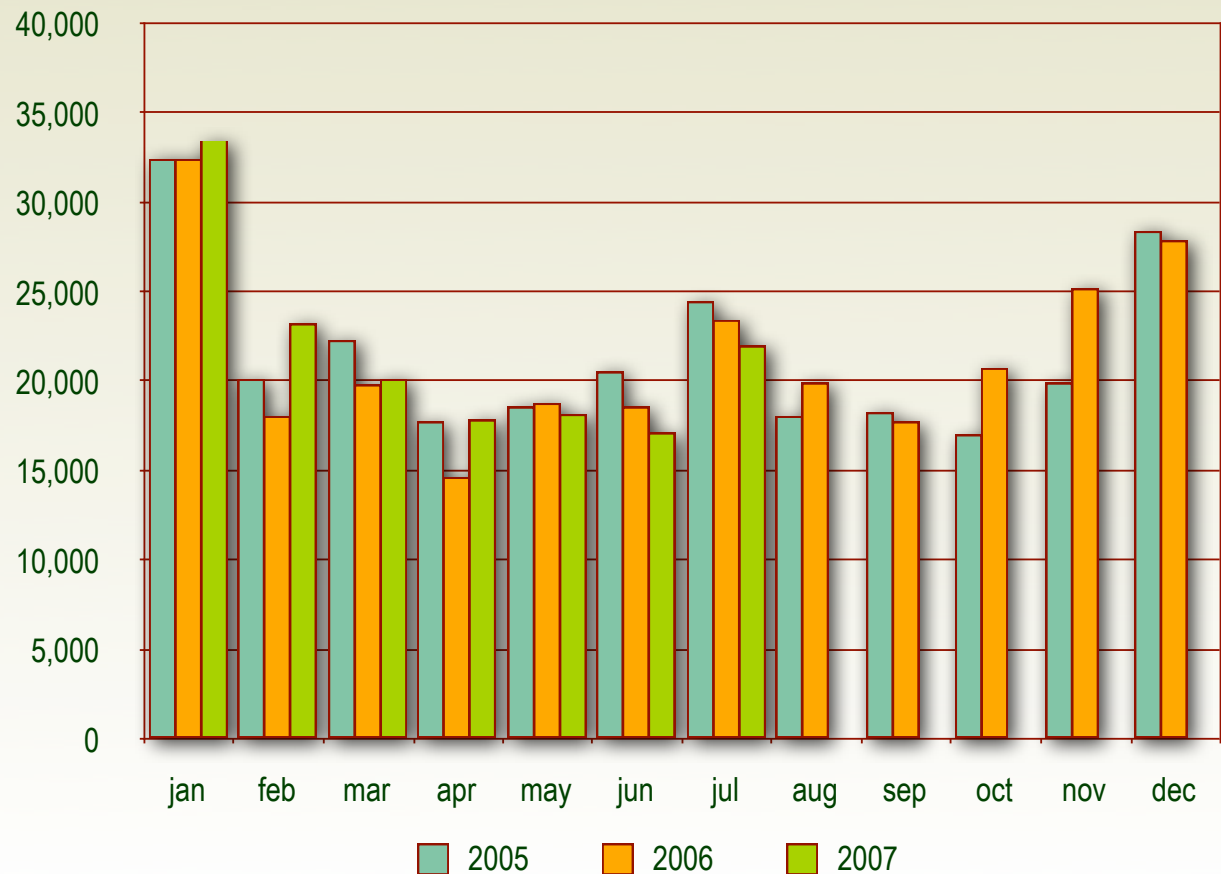




UI Initial Claims

2005 - 2007 *(year to date)*

➔ Total initial claims through July this year are up 4.4% because of more, mostly temporary, motor vehicle and furniture layoffs. For the same period, initial claims are down 2.6% from 2005.

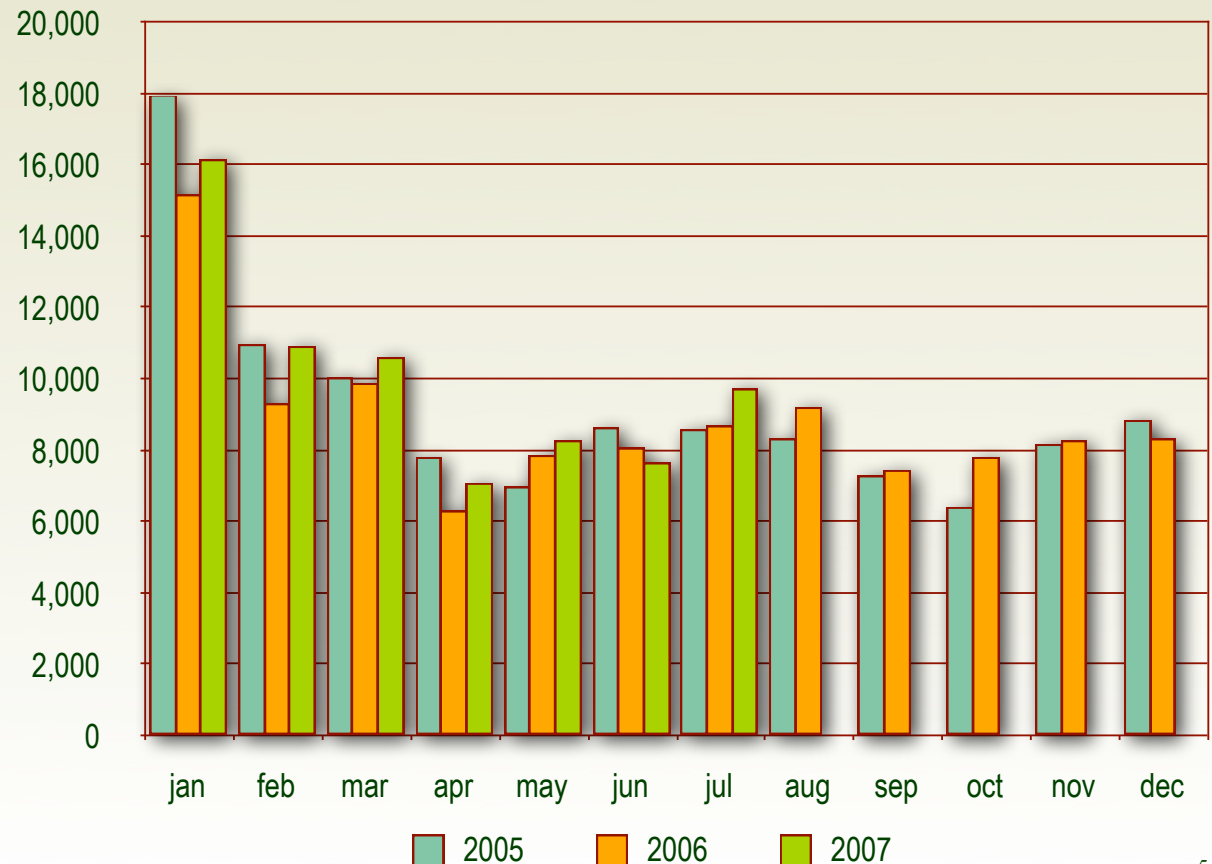




UI First Payments

2005 - 2007 *(year to date)*

- A claimant can receive only one first payment in his benefit year; so first payments are a good proxy for the number of claimants receiving unemployment benefits.
- Through July, first payments are up 7.7% from last year, but down 1.0% from 2005.
- The average duration in July was 12.6 weeks, above last July's 12.4 weeks.

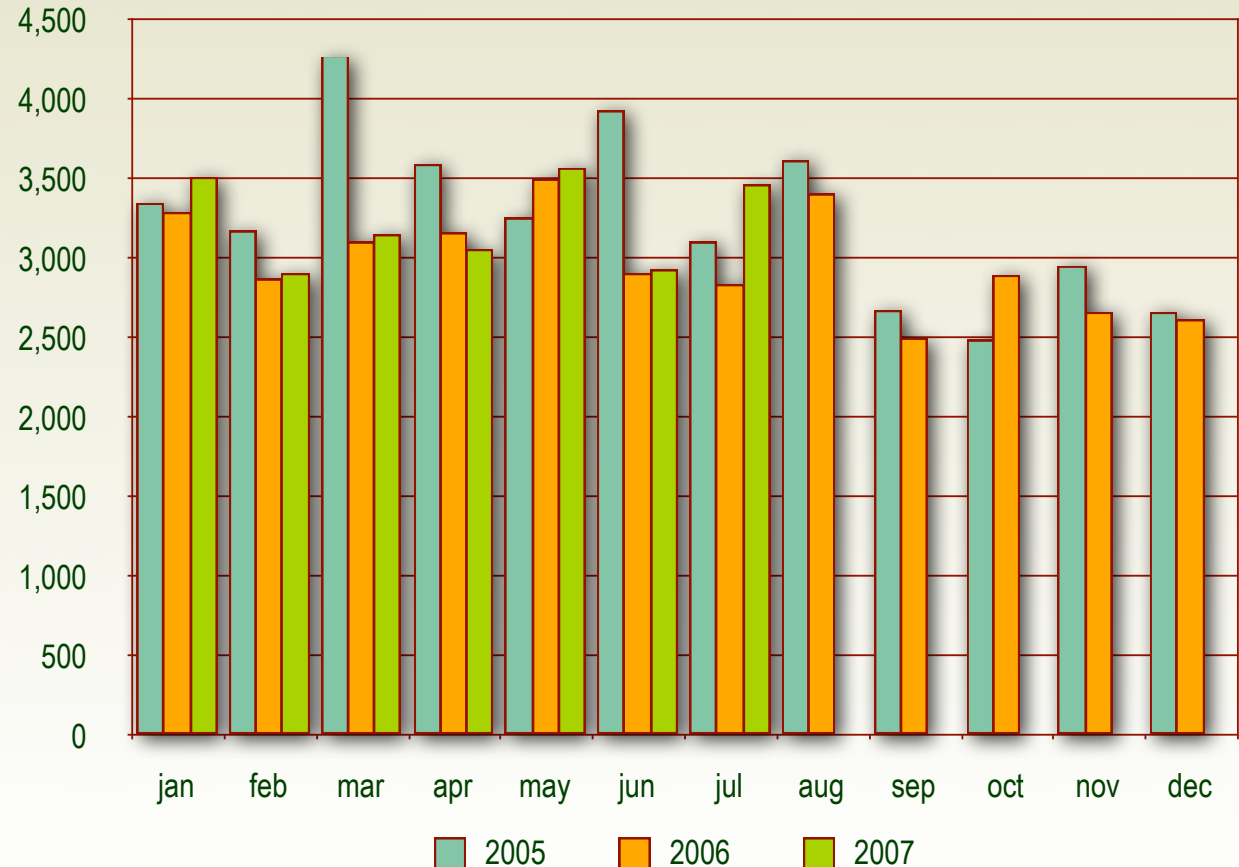




UI Final Payments 2005 - 2007 *(year to date)*

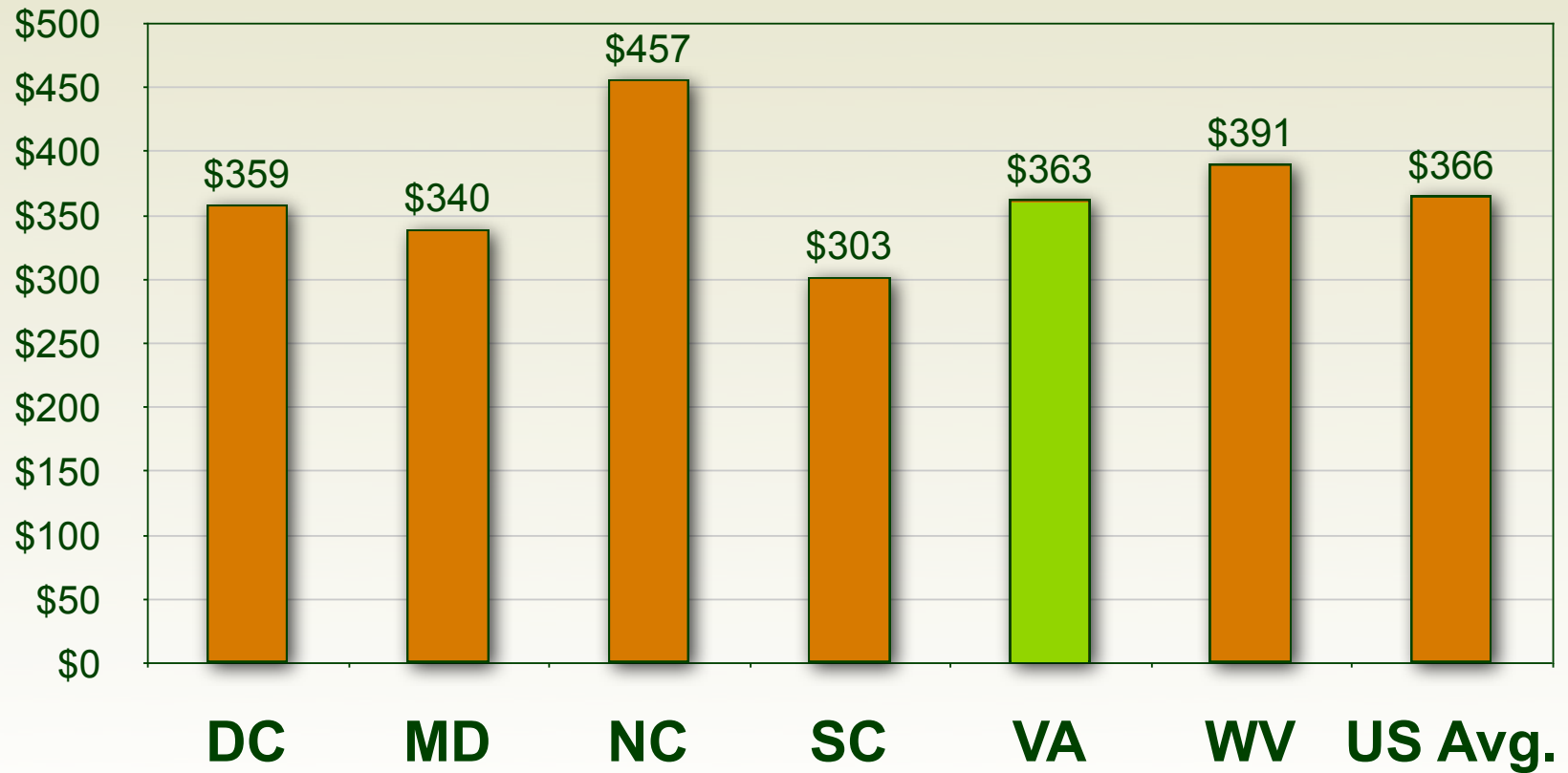
→ For the first seven months of 2007, final payments are up 4.3% from 2006, but down 8.4% from 2005.

→ The exhaustion rate in July was 34.1%, up from last July's 33.6%.



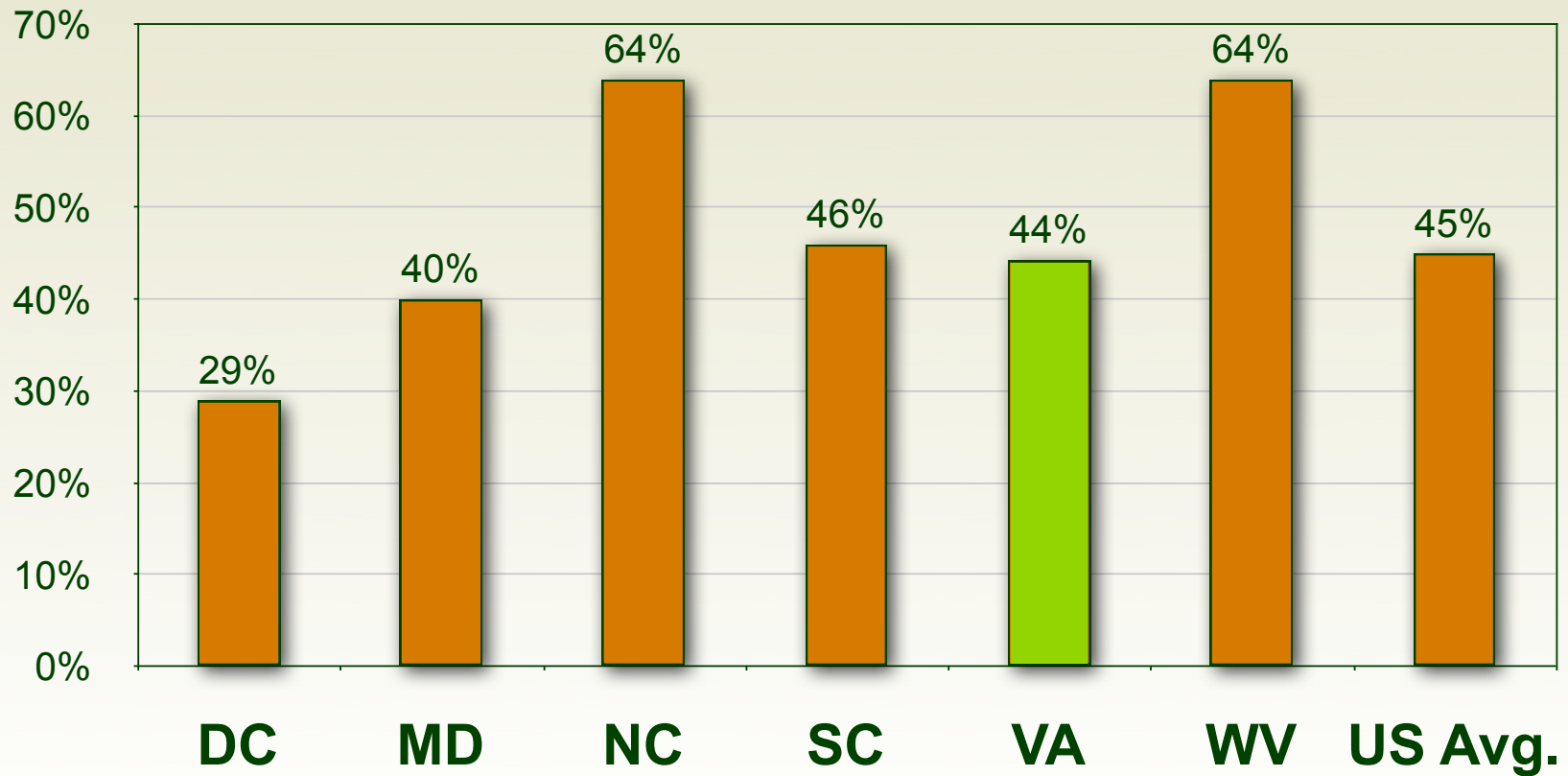


2007 Maximum Weekly Benefit Fourth Circuit





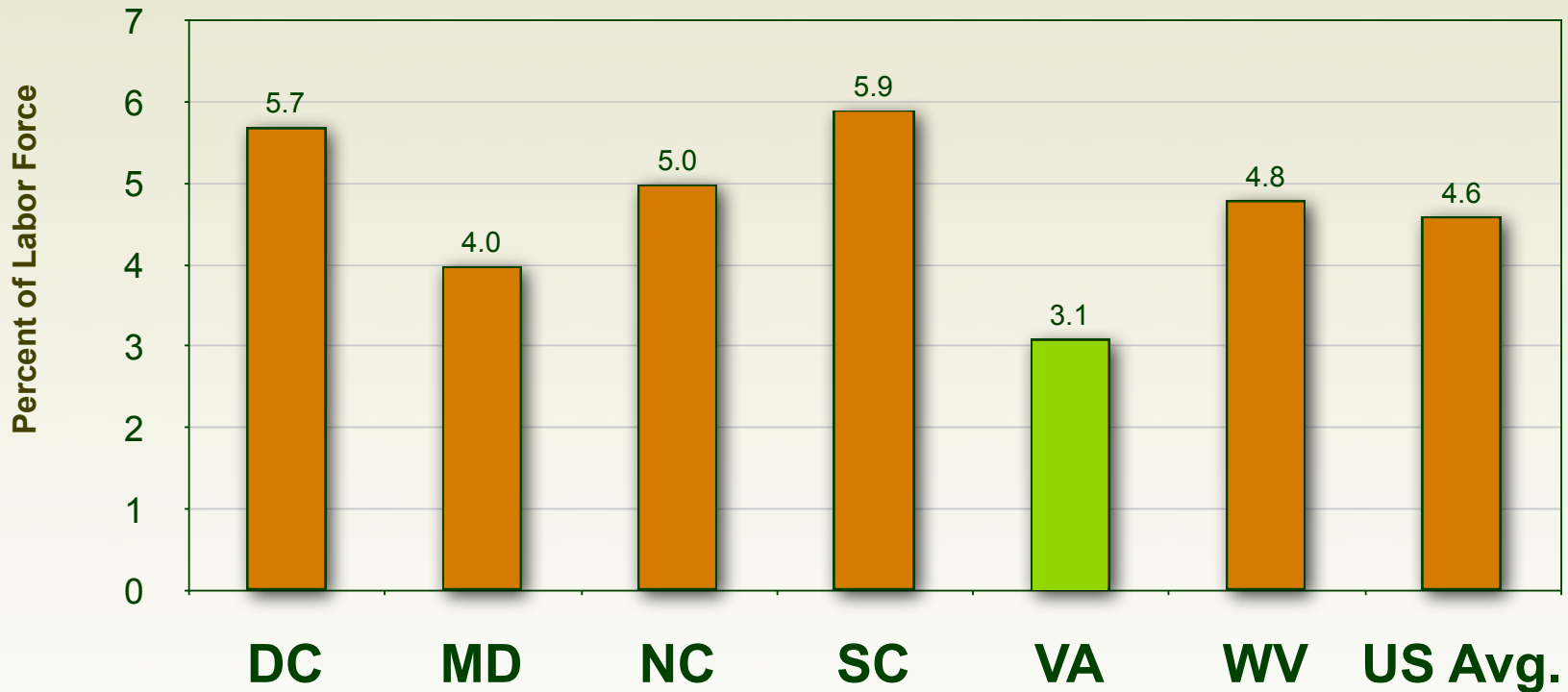
2007 Maximum Weekly Benefit Replacement Rate Fourth Circuit





July 2007 Unemployment Rates

Fourth Circuit



Note: Seasonally Adjusted Rates



Impact of Ford Norfolk Plant Closure

➔ From July 2006 through June 2007, there were \$10.2 million in benefits charged to Ford and its suppliers. During that same period, VEC took about 5,000 initial claims from these employers.

Employer Name	Initial Claims	Additional Claims
Ford motor Co.	1,589	2,856
Johnson Controls	11	7
TDS Automotive	155	147
Visteon Chesapeake	1	9
Allied System	109	73

Sources: Hampton Roads Planning District Commission and VEC.



Trust Fund Data

(Millions of Dollars)

(Projections will be updated in December)

	2006	2007
January 1 Balance	\$498.9	\$644.9
Tax Revenue	\$529.6	\$420.0
Interest Revenue	\$30.6	\$34.8
Benefits	\$347.2	\$382.1
December 31 Balance	\$644.9*	\$707.1**
Solvency Level (6/30)	71.9%	67.8%

*\$67 million in Reed Act money deducted from Trust Fund balance for FY07 and FY08 appropriations for JS and UI administration and capital projects.

**\$10.5 million in Reed Act money deducted from Trust Fund balance for FY08 appropriations for JS and UI administration.



Actual



Projected



Trust Fund Solvency Adequate Fund Balance

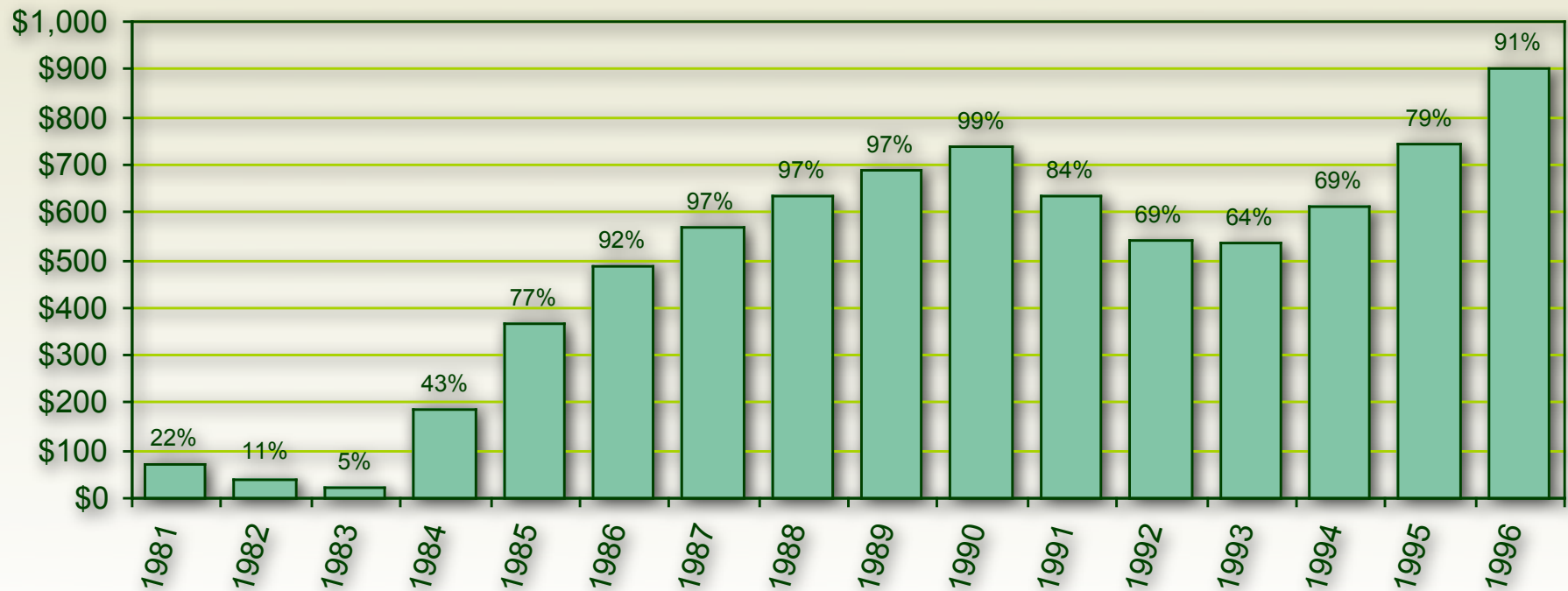
- Solvency = $1.38 \times \text{Average Cost Rate} \times \text{Wages}$.
- 1.38 represents 16.5 months of benefits with no revenue.
- Average Cost Rate is the average of 3 highest ratios of benefits to total wages in the past 20 years.
- Wages are total wages paid by taxable employers for the year ending June 30.
- Solvency Level = $\text{June 30 balance} \div \text{Adequate Fund Balance}$.



June 30 Balances (millions) and Solvency Level 1981 - 1996

→ When solvency drops below 50%, Fund Builder Tax is triggered the following year.

(Projections will be updated in December)

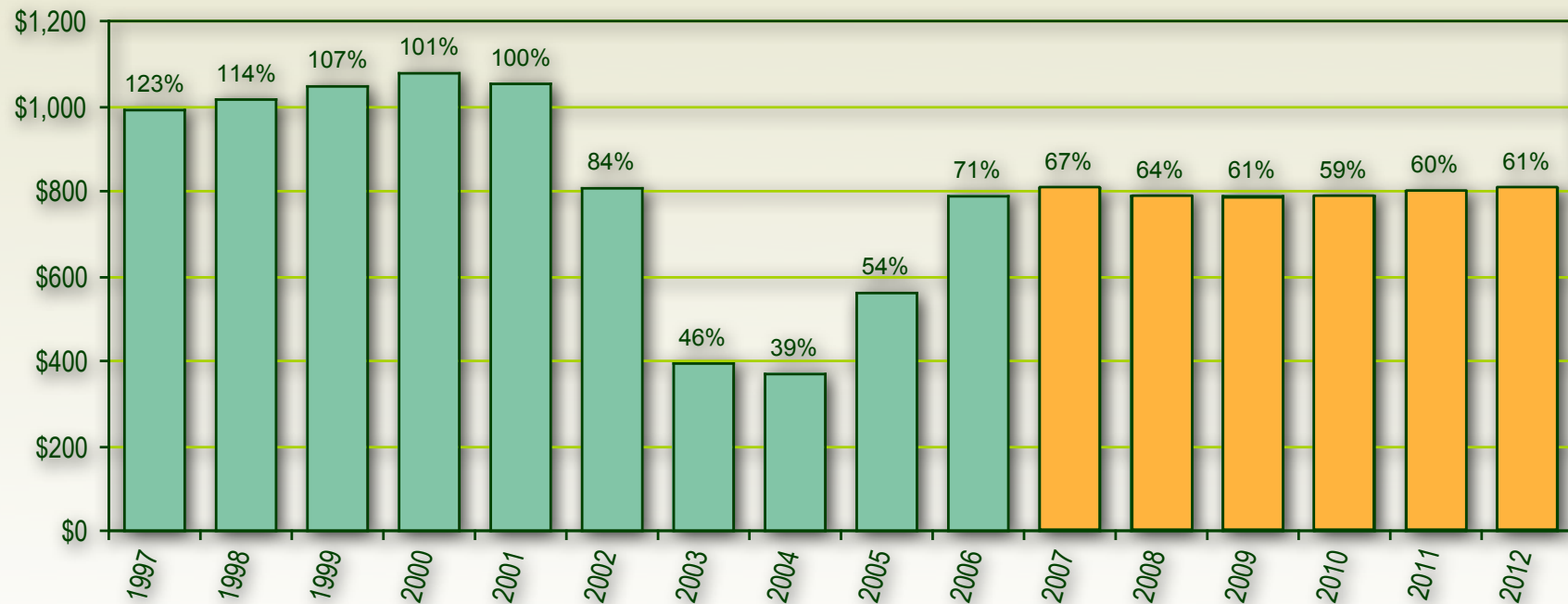




June 30 Balances (millions) and Solvency Level 1997 - 2012

➔ When solvency drops below 50%, Fund Builder Tax is triggered the following year.

(Projections will be updated in December)



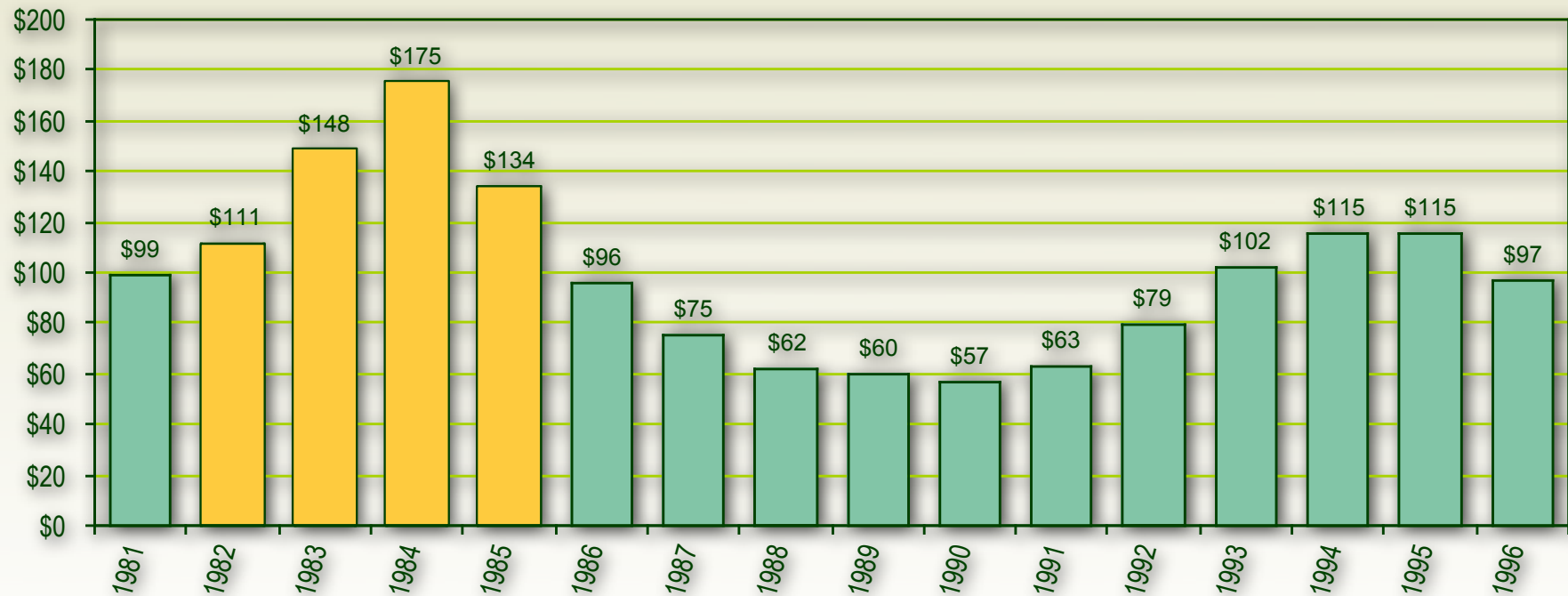
➔ 2007 – 2012 projected.



Average Tax per Employee 1981 - 1996

➔ The increases from 2003 through 2012 are the result of higher benefit schedules and the recession.

(Projections will be updated in December)



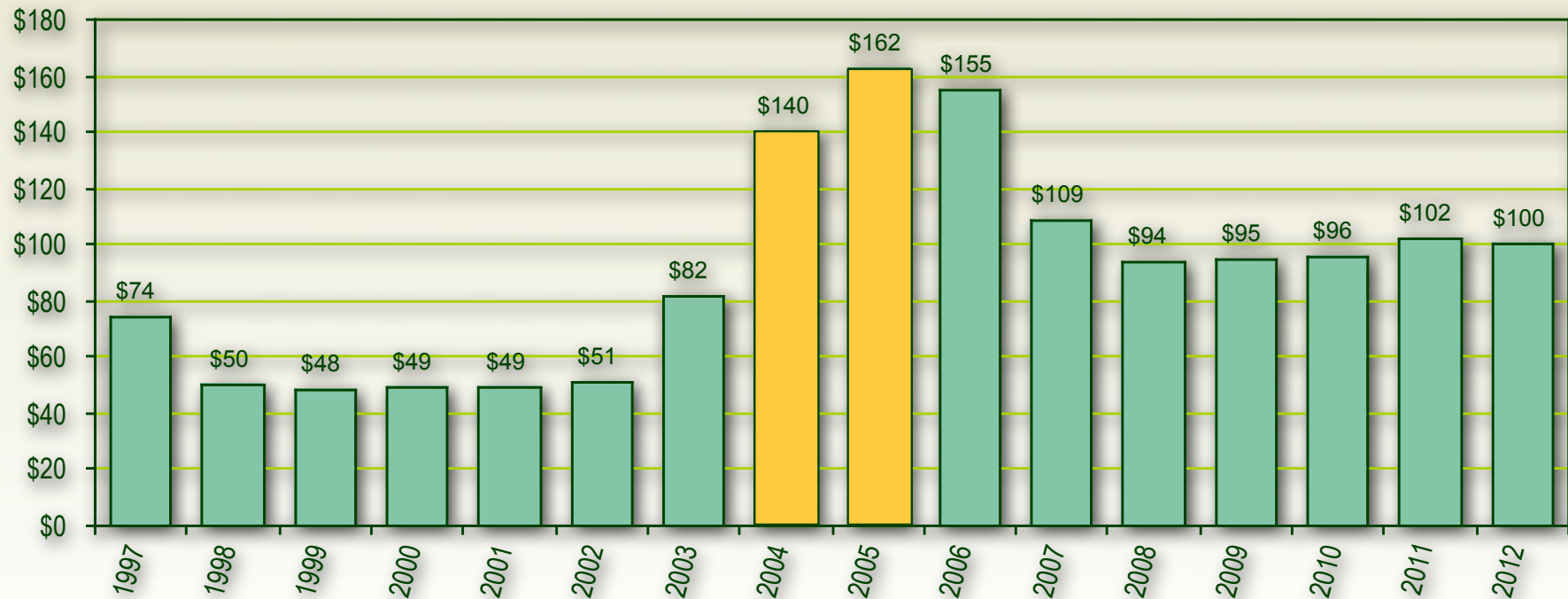
 Fund Builder Tax in effect.



Average Tax per Employee 1997 - 2012

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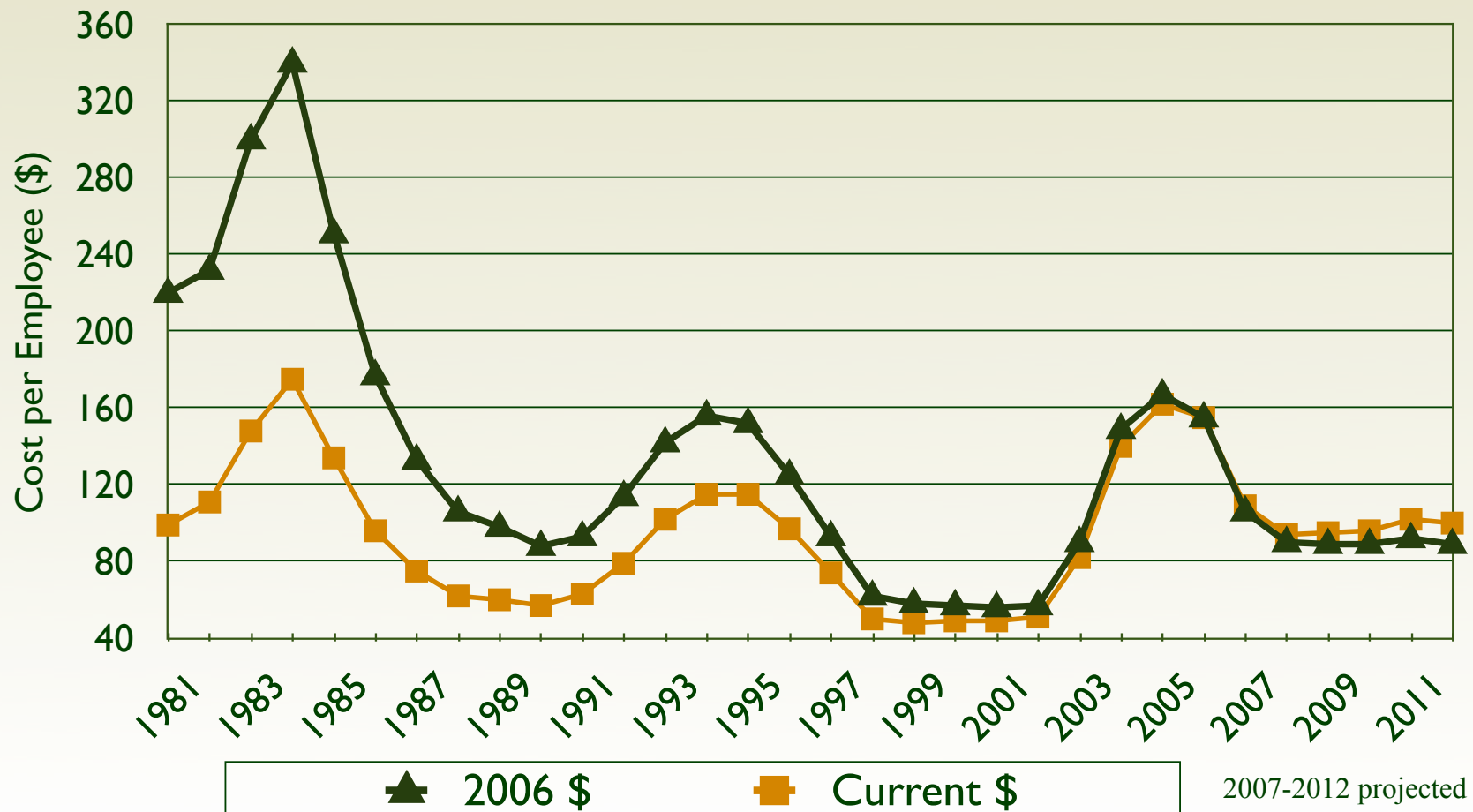
Fund Builder Tax in effect.



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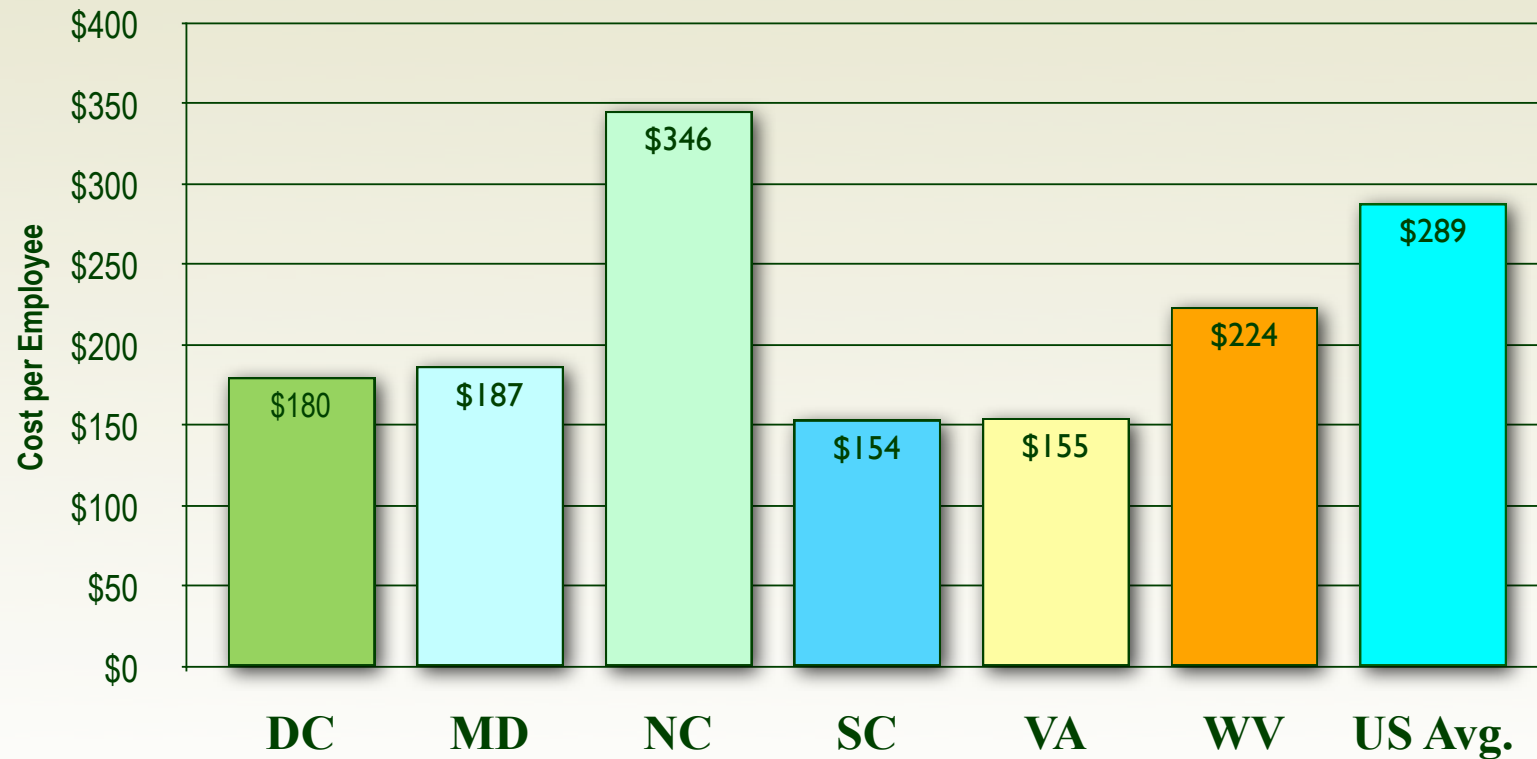
Average Tax 2006 Dollars vs. Current Dollars





Average Tax per Employee

Fourth Circuit – Year ending 12/31/06





2007 General Assembly Session

Nicholas Kessler, Deputy Commissioner
Virginia Employment Commission

September 27, 2007



2007 General Assembly Session

→ During the 2007 session, the Virginia General Assembly passed and the Governor signed into law four bills that directly impacted the Virginia Employment Commission. Those bills were:

- HB 2066 (Nixon) amended Section 60.2-602 to increase the maximum weekly benefit amount from \$347 to \$363 effective July 1, 2007.
- HB 2272 (Purkey) amended Section 60.2-512 to require employers of 100 employees or more to file their quarterly wage and tax reports with the VEC by electronic media in a format prescribed by the Commission. Prior to this amendment the law required employers of 250 employees or more to file by magnetic media. This bill will not be effective until January of 2009.



2007 General Assembly Session

- HB 964 (Bulova) was carry-over legislation from the 2006 General Assembly session. This bill amended Section 60.2-512 to permit domestic employers with a quarterly payroll of \$5,000 or less to file wage and tax reports annually and to pay the taxes due annually. This bill is also not effective until January of 2009.
- SB 1056 (Watkins) amended Section 60.2-315 to increase the Commissioner's discretionary fund from \$200,000 per year to \$375,000 per year. The discretionary fund is a part of the agency's Special Unemployment Compensation Administration Fund, commonly known as the penalty and interest fund.



Federal Legislation

→ Unemployment Insurance Modernization Act

H.R. 2233 (Rep. McDermott)

S.1871 (Sen. Kennedy and Sen. Warner)

- This initiative would provide incentive funds to states to provide UI eligibility to specified categories of workers.
- Under this bill, Virginia's UI trust fund would receive \$65 million whose use would be subject to the same regulations as Reed Act distributions. Virginia would qualify for this payment due to the Legislature's 2003 adoption of the "alternate base period" method of determining eligibility for UI.
- The bill would also offer Virginia the potential of receiving an additional \$130 million, contingent upon Virginia broadening UI eligibility in other specified ways.
- The VEC would also receive 5 annual payments of \$2.7 million each for UI program administration.



Recognition of Indian Tribes

- Legislation has passed the House and is pending in the Senate to provide Federal recognition to six Virginia Indian tribes.
- If enacted Virginia would need to amend its UC law to remain in conformity with federal law requirements.
- The amendments would require that (1) services in the employ of one of the Indian tribes would be covered under state law, and (2) the Indian tribes would be afforded the reimbursable option the same as any state or local government.
- Model legislative language has been provided by the USDOL and given to the Division of Legislative Services.



State Legislation

→ Minimum earnings and benefits

- Several years ago a compromise was reached by our stakeholder groups with respect to the minimum earnings requirement and the minimum weekly benefit amount. At that time it was agreed that the minimum weekly benefit amount would be determined by the following formula: Federal Minimum Wage x 40 hours x 13 weeks. After rounding, that formula yielded the current high two-quarter requirement of \$2,700 as the minimum earnings requirement to be monetarily eligible for UI benefits.
- The enactment by Congress of a three-step increase in the federal minimum wage will likely result in state legislation to modify the minimum earnings requirement and minimum weekly benefit amount. Such a bill is not being drafted by the agency, so we do not know if it will cover each of the three incremental increases at one time or defer one or more of them until later.
- We are not aware of any other state legislative initiatives that would directly impact the administration of the unemployment insurance program, but that will likely change as we get closer to the start of the session.



Modernization Projects

Salvatore Lupica, Chief Operating Officer
Virginia Employment Commission

September 27, 2007



VEC Business Projects

- With support from the U.C. Commission and VEC stakeholders, the General Assembly appropriated \$67 million in Reed Act funds to support three critical business projects and supplement UI and JS program administration.
- Those projects are:
 - **UI Systems Modernization**
 - **VWNIS**
 - **Financial Management System**



Status of Business Projects

→ UI Systems Modernization

- Project team and project manager selected
- Project initiation documentation prepared
- Substantial completion of requirements developed
- Request for Proposal (RFP) by December 31, 2007

→ VWNIS

- System to be fully implemented/live on November 14

→ Financial Management System

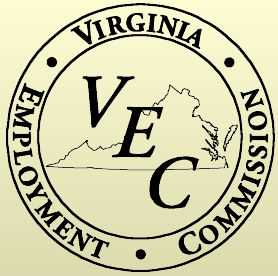
- Financial Management software/integrator RFP is to be released in fall
- Contract to be finalized in spring 2008
- Financial management implementation begins summer 2008



Budget and Funding Issues

Dolores Esser, Commissioner
Virginia Employment Commission

September 27, 2007



FUTA Funding Issue

- In 2005 Virginia received 30.2% of the FUTA taxes paid by our employers for program administration—the second lowest in the country.
- In 2006 Virginia's return of its FUTA taxes fell to 27.6%.

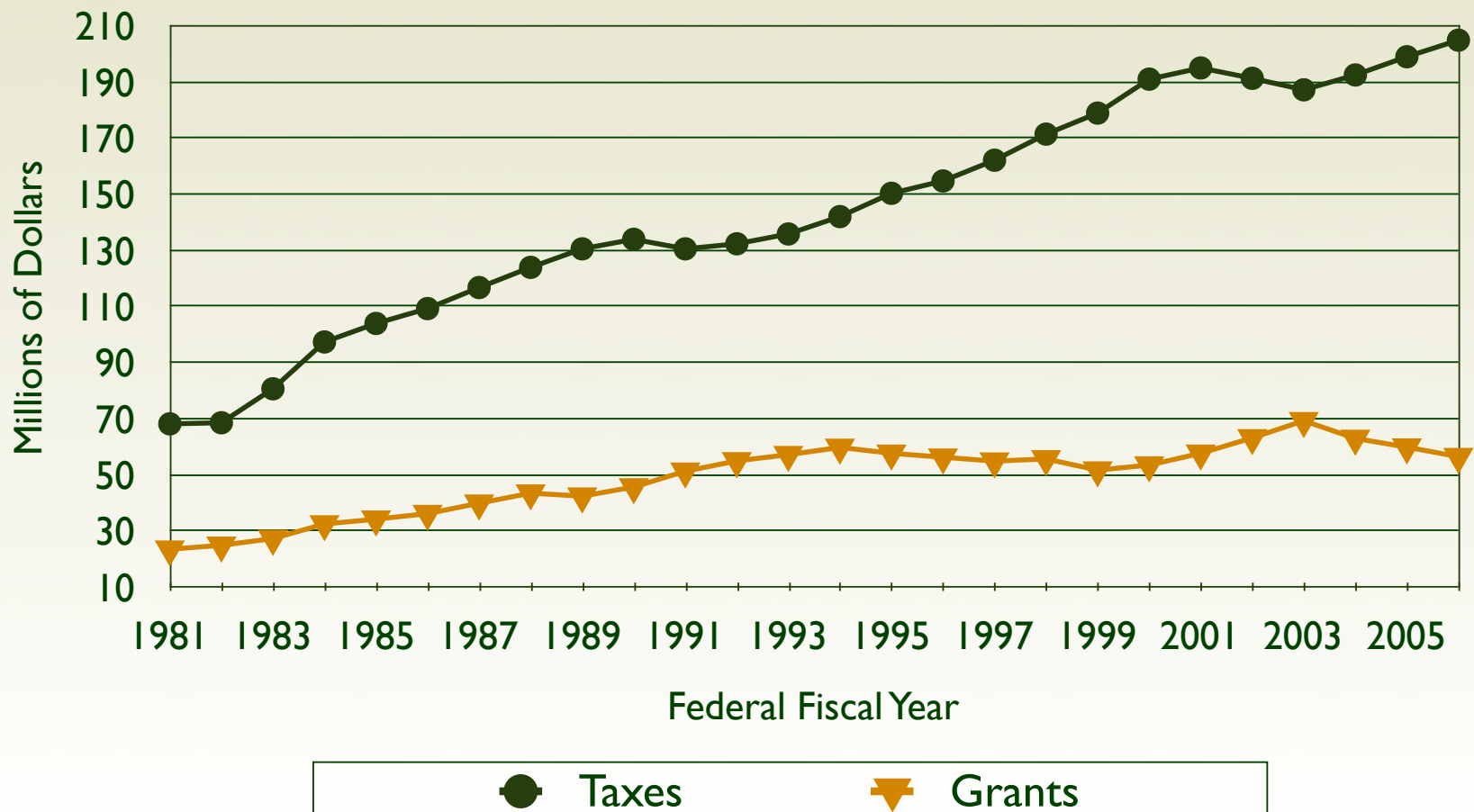


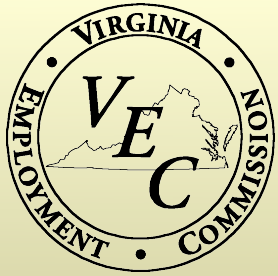
US FUTA Taxes and Administrative Grants 1981-2006





Virginia FUTA Taxes and Administrative Grants 1981-2006





Loss of Funding

→ Making adjustments for inflation using the Consumer Price Index (CPI) during the past four years shows a loss of funding of \$2,007,499 for Job Service and \$6,095,714 for Unemployment Insurance.



24 States

→ \$529.1 million would be needed to bring 24 states to a 50% return. This represents 1.7% of fund balances.



Projected Shortfall

→ Projected shortfall of \$21 million in 2009.



FUTA Funding—Steps Taken

- Governor's number one issue in meeting with congressional delegation - February 2007
 - Public meetings
 - ⇒ 11 locations
 - ⇒ 551 attendees
 - ⇒ over 200 letters and emails



FUTA Funding—Steps Taken

- Report prepared for the Governor and presented to Secretary of Commerce and Trade - July, 2007
 - Continued meetings with Cabinet Secretaries and Governor's staff



FUTA Funding—Steps Taken

→ Virginia Liaison Office:

- after Governor's meeting with congressional delegation, continuing follow-up of FUTA issue
- June, 2007 - Meeting with congressional legislative directors and Department of Labor staff
- H.R. 2233 - met with House Ways and Means staff to determine effect on Virginia
- Encouraged Senator Warner to co-sponsor companion bill S.1871



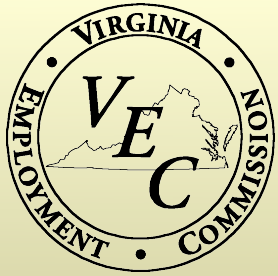
FUTA Funding—Steps Taken

- July 20, 2007 - Nicholas Kessler, Deputy Commissioner, represented Virginia in House and Senate staff briefings on bills
- September 19, 2007 - Lynette Hammond, Deputy Secretary of Commerce and Trade, testified before House Ways and Means Subcommittee on H.R. 2233



FUTA Funding—Steps Taken

- S.1871 will likely be placed as a rider on the Trade Adjustment Act reauthorization—H.R. 2233 would likely occur as a rider to another House bill



Governors' Sign-on Letter

→ Virginia liaison office working with counterparts of Florida, New York, New Jersey, Nevada, and Texas to author and send a letter with the signatures of the Governors from these states to the House and Senate leadership.



Virginia Chamber of Commerce Letters

- Virginia Chamber of Commerce letters sent to local Chambers encouraging them to write to the Virginia congressional delegation.
- Employer Advisory Committee members continue to distribute information on FUTA.



State Legislation

→ Reed Act

- The VEC expects to request that the General Assembly authorize \$12 million in Reed Act funds to be used for program administration at our agency.
- At the current level of benefits, our calculations show that removing this \$12 in Reed Act funds from the UI trust fund would not cause a change in employer taxes. If and when we become aware of legislation that would increase UI benefits levels and the minimum earnings requirement, we will recalculate the impact of this \$12 million Reed Act withdrawal on the trust fund solvency.



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